G&H

G & H STEEL INDUSTRIES LIMITED
ANNUAL REPORT 1974

Des exemplaires de ce rapport en français sont disponibles de la compagnie.

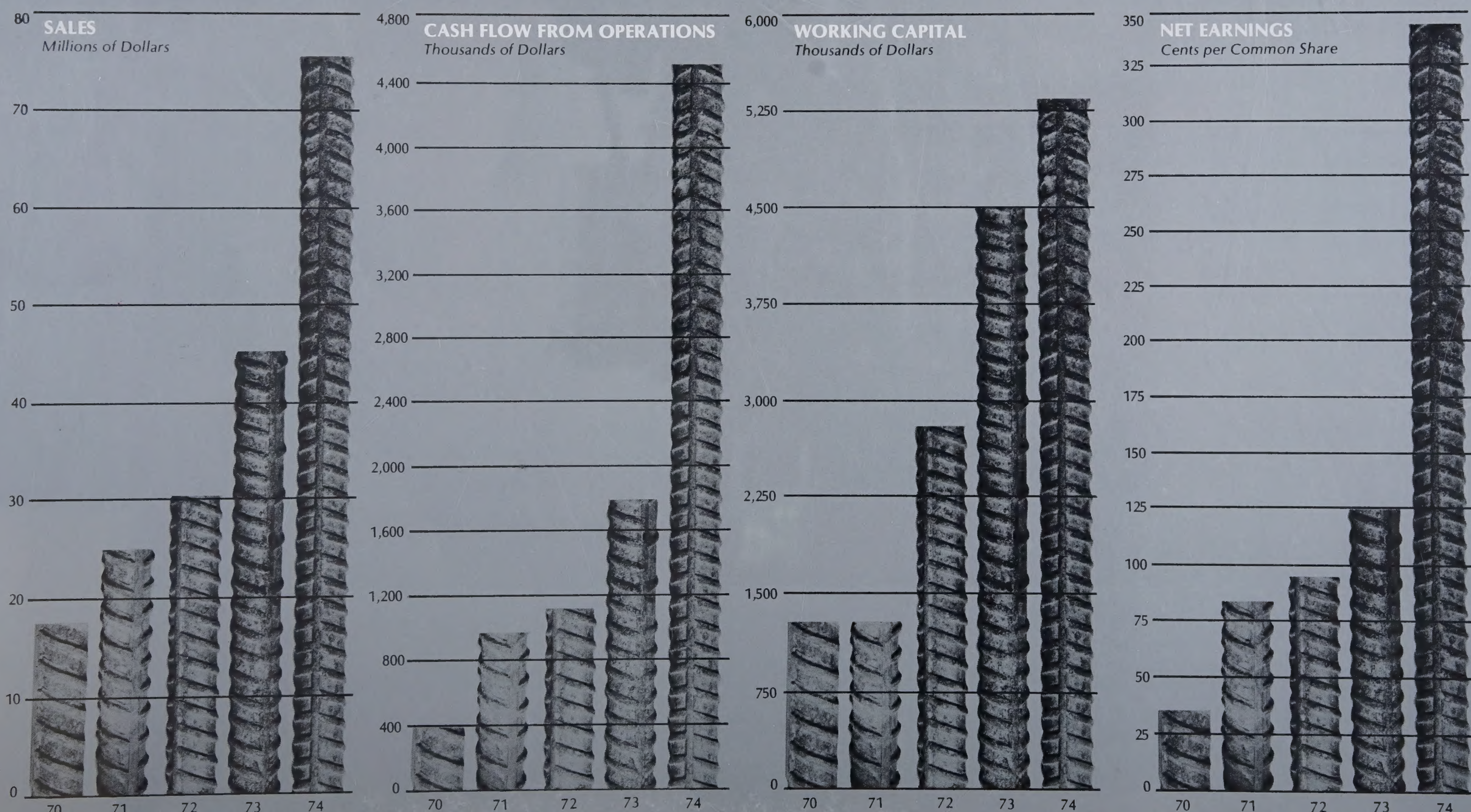
G&H

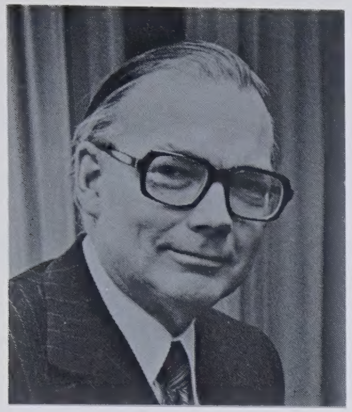
STEEL INDUSTRIES LIMITED
ANNUAL REPORT 1974

FINANCIAL HIGHLIGHTS	1974	1973	Increase
EARNINGS			
Contract revenue and sales *	$75,639,836	$44,331,174	$31,308,662
Cash flow from operations	4,555,806	1,814,734	2,741,072
Net earnings *	3,819,064	1,299,980	2,519,084
VALUES PER SHARE			
Net earnings *	3.43	1.23	2.20
Cash flow from operations	4.09	1.71	2.38
Book value	7.84	5.09	2.75
OTHERS			
Total assets	40,300,596	22,121,838	18,178,758
Shareholders' equity	8,739,659	5,678,795	3,060,864

**See Note 1, Accounting Policies, in Notes to Consolidated Financial Statements.*

G&H STEEL INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES



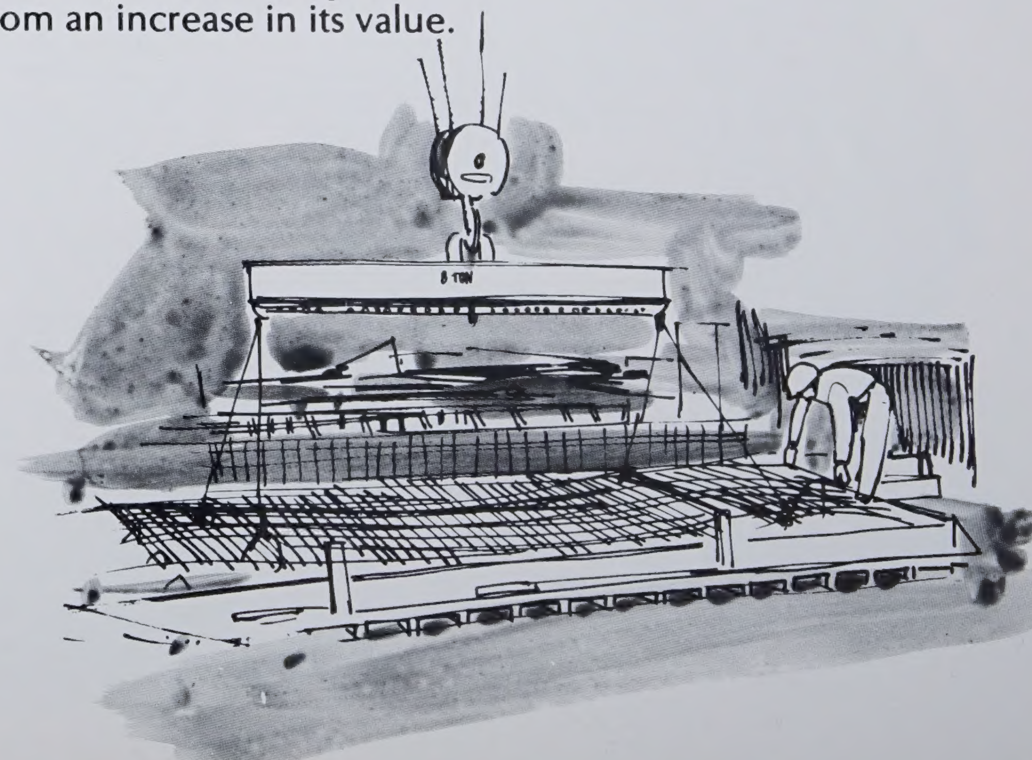


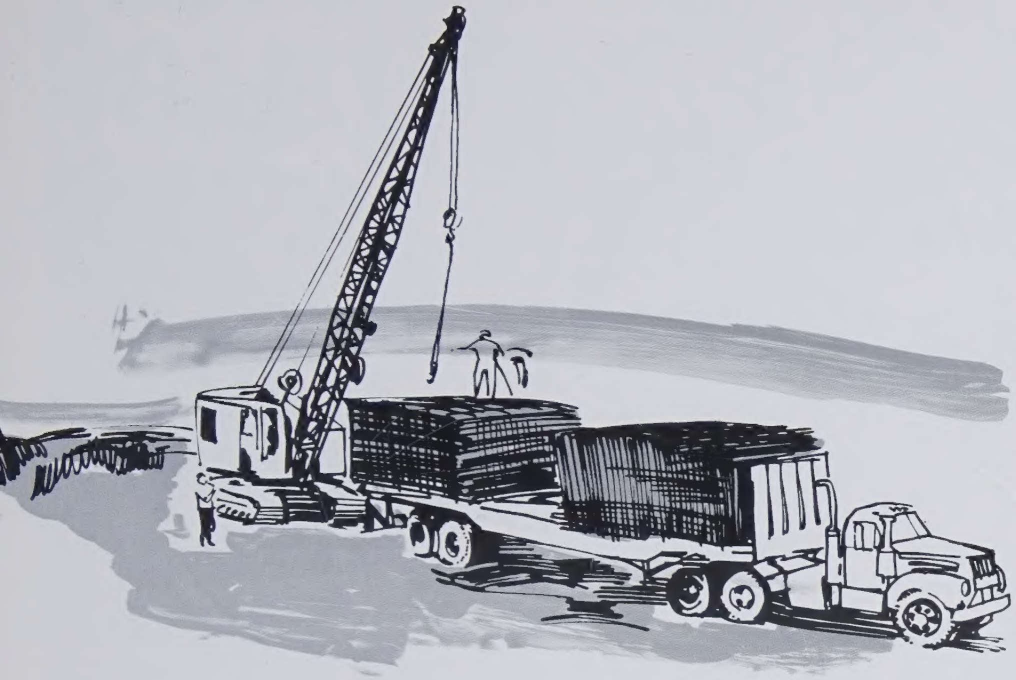
President's Message

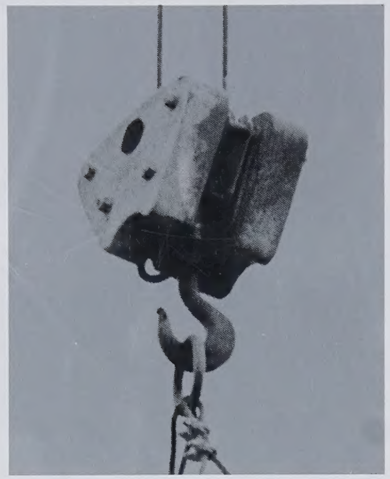
I am very pleased to report to you that during its 25th year in business your company produced record results in sales, earnings and dividends. Sales increased from $44.3 million to $75.6 million, or almost 71 percent. Earnings per share reached $3.43, up 178 percent from the $1.23 earned a year ago. Dividends declared during the year amounted to $758,200 or 68¢ per share.

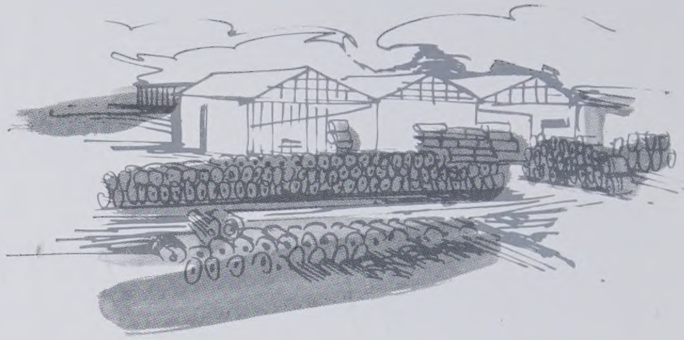
The most significant change in 1974 was the improvement in our net margin, which increased from 2.93 percent to 5.04 percent. This resulted largely from market conditions which prevailed during the first half of the year, when steel was in short supply and the demand for our products and services was very firm. Despite overall industry shortages, our long-standing policy of purchasing rebar from Canadian steel mills enabled our reinforcing steel operations to benefit from favorable allocations of steel during the year.

I have often been asked how much of our earnings could be attributed to inventory profits. It might appear that such profits, arising from the rapid escalation in steel prices that took place, could have favorably influenced our results—but such is not the case. The overwhelming majority of our sales involve contracts covering from one to three years, and at any point in time our inventory is subject to the completion of our backlog of contracts at prices that have been predetermined, and we are not able to realize any substantial gains that might result from an increase in its value.

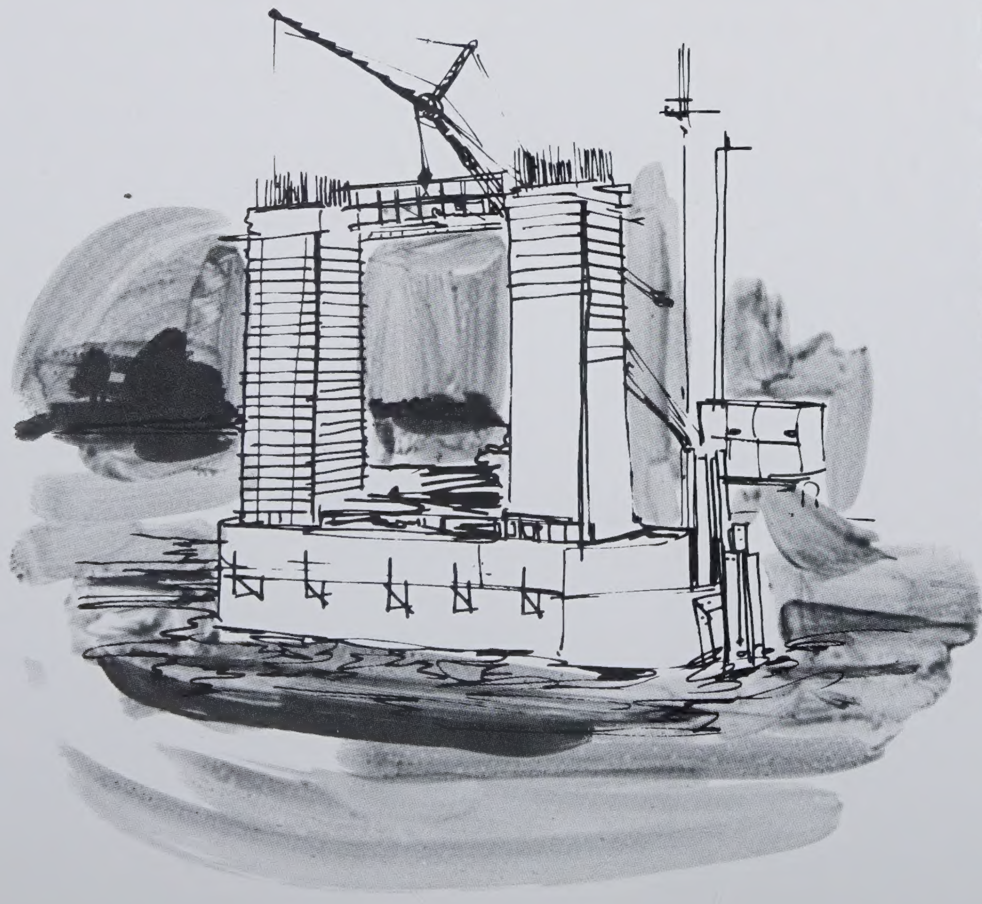






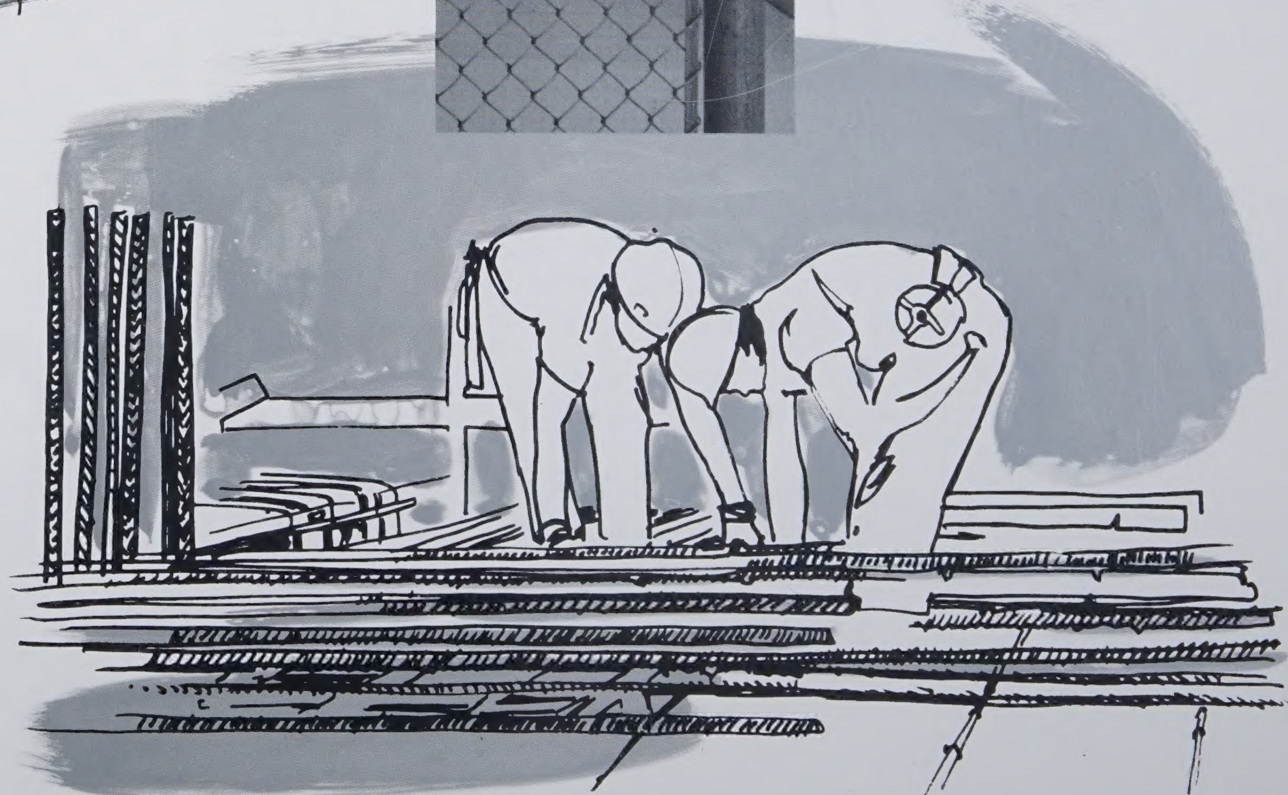


The improvement in our net margin might have been greater had it not been for several factors which adversely affected us in the latter half of the year. The most significant of these factors was the downturn in the economy which occurred throughout North America. Both the extent and the suddenness in the deterioration of the demand for our wire products in particular were unexpected. Because domestic steel mills cannot supply our requirements for wire rod, we must rely on foreign mills. This requires us to commit for purchases months before anticipated delivery. The time lapse presents an element of risk which we have been prepared to accept and which heretofore has resulted in satisfactory profits. During the last quarter of 1974, however, we were unable to sell wire products at prices which were consistent with the cost of raw materials ordered in the early months of the year. Consequently, the remaining inventory of wire rod was written



down, and the resultant charge to profit was absorbed in the fourth quarter. Other factors which adversely affected our profitability in the latter half of the year included the surtax on corporate profits, a prolonged strike in Montreal and a marked slowdown in construction activity in Ontario.

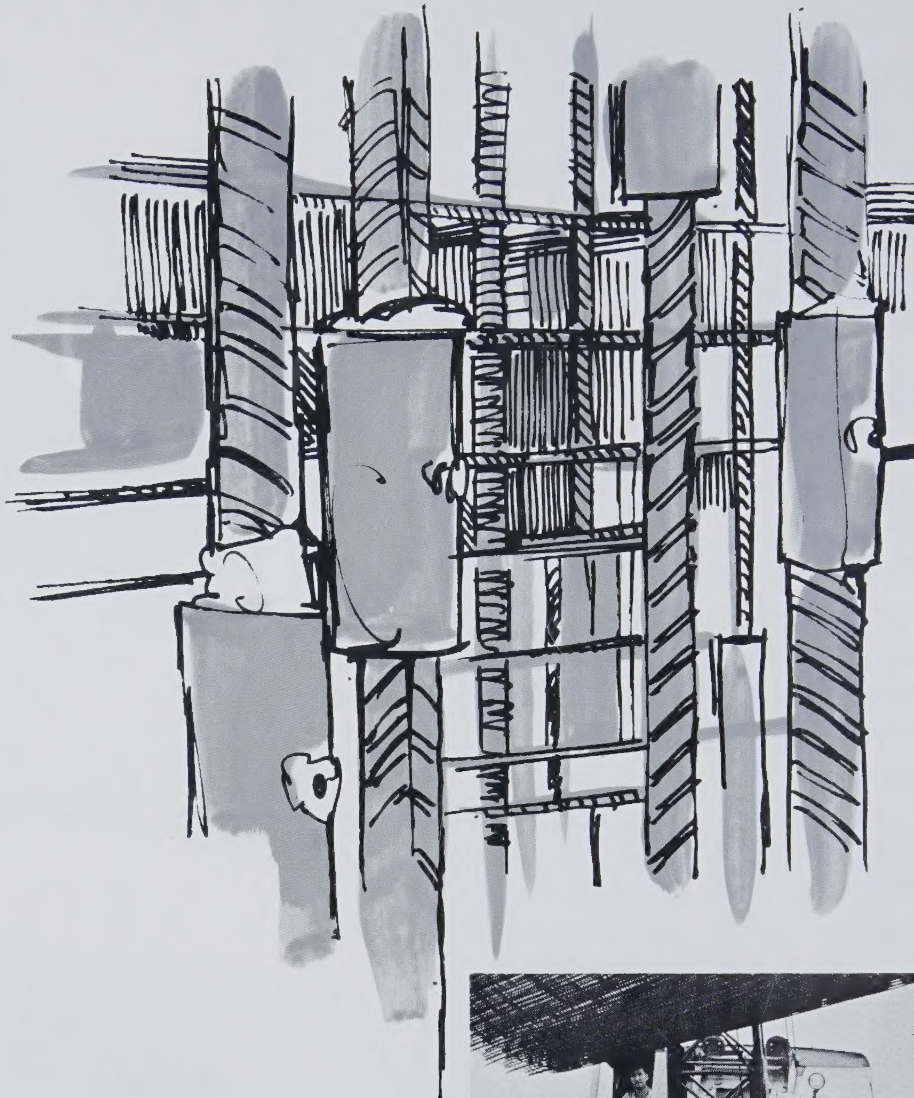
Overall, however, I am most gratified with our 1974 performance. We enjoyed a considerable increase in real growth, and we expanded our operations in areas which offer exciting potential. We acquired Triscon Steel Limited and Brandywine Steel Corporation, which provide us with local fabricating and placing facilities in Alberta, British Columbia and the Northeastern United States. We broadened our range of products for the construction industry through the acquisition of PennKote Limited, a manufacturer of waterproofing and allied products, and Lek-Trodes Limited, a manufacturer of specialized powdered-metal products.

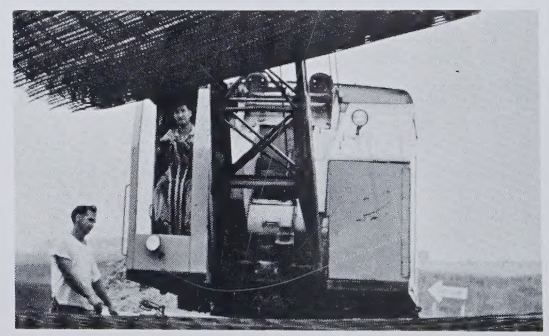


No doubt many of our shareholders will be wondering whether or not the earnings we have achieved are sustainable. The best answer I can give to this question is that we are very optimistic for 1975. Certainly, we are feeling the effects of the present recession. The market for wire products in particular continues to be depressed, and we do not expect a significant upturn in this segment of our business. However, our backlog of contracts in hand in other areas of our operation is at a high level, and I am confident that we shall continue to produce reasonable earnings from this source.

In conclusion, on behalf of my fellow directors, I wish to express our sincere appreciation to all of the people whose service and dedication made 1974 a memorable landmark in your company's history.

David L. Hadden





CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS *for the year ended December 31, 1974*

	1974	1973
CONTRACT REVENUE AND SALES	$75,639,836	$44,331,174
COSTS AND EXPENSES		
Direct costs	62,081,967	38,646,228
Selling and administrative expenses	4,168,555	2,434,005
Depreciation	612,425	427,069
Interest on long-term debt	292,414	218,015
Other interest	802,763	176,392
	67,958,124	41,901,709
EARNINGS before income taxes	7,681,712	2,429,465
Provision for income taxes		
Current	3,073,921	986,000
Deferred	729,883	130,000
	3,803,804	1,116,000
EARNINGS before minority interests	3,877,908	1,313,465
MINORITY INTEREST in earnings of subsidiary companies	58,844	13,485
NET EARNINGS FOR THE YEAR	3,819,064	1,299,980
RETAINED EARNINGS, beginning of year	3,987,349	2,868,040
	7,806,413	4,168,020
DIVIDENDS	758,200	156,100
EXPENSES OF COMMON SHARE ISSUE	—	24,571
	758,200	180,671
RETAINED EARNINGS, end of year	$ 7,048,213	$ 3,987,349
EARNINGS PER SHARE (Note 6)	$3.43	$1.23

CONSOLIDATED BALANCE SHEET *December 31, 1974*

ASSETS	1974	1973
CURRENT		
Accounts receivable		
Contracts and holdbacks	$11,435,824	$ 8,162,148
Other trade receivables	2,604,886	2,107,194
Miscellaneous receivables	512,697	—
Inventories (Note 1)	18,572,566	7,474,731
Prepaid expenses and other assets	189,665	169,355
	33,315,638	17,913,428
DEBENTURE RECEIVABLE	308,459	308,459
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, construction and manufacturing equipment, at cost less accumulated depreciation of $3,836,818 ($3,165,306 in 1973) (Note 2)	6,146,176	3,848,050
GOODWILL, at cost (Note 1)	301,180	—
CASH SURRENDER VALUE OF LIFE INSURANCE	31,685	51,901
DEFERRED CHARGES	197,458	—
	$40,300,596	$22,121,838

On behalf of the Board

Director

Director

LIABILITIES	1974	1973
CURRENT		
Bank advances and demand loans, secured (Note 3)	$10,365,644	$ 4,914,347
Accounts payable and accrued liabilities	12,085,278	6,675,968
Dividends payable	524,050	—
Income taxes payable	2,880,788	439,636
Current portion of long-term debt	529,114	503,284
Deferred income taxes applicable to contract holdbacks	1,590,410	876,000
	27,975,284	13,409,235
LONG-TERM DEBT (Note 4)	2,492,775	2,323,658
DEFERRED INCOME TAXES	525,473	318,000
INTEREST OF MINORITY SHAREHOLDERS (Note 1)	567,405	392,150
	31,560,937	16,443,043
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
2,000,000 Shares without par value		
Issued		
1,115,000 Shares	1,250,000	1,250,000
RETAINED EARNINGS	7,048,213	3,987,349
EXCESS OF NET TANGIBLE ASSETS of consolidated subsidiary over cost of investment at date of acquisition	441,446	441,446
	8,739,659	5,678,795
	$40,300,596	$22,121,838

AUDITORS' REPORT

To the Shareholders of
G & H Steel Industries Limited

We have examined the consolidated balance sheet of G & H Steel Industries Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Campbell,Sharp,Nash & Field
Chartered Accountants
Toronto, February 21, 1975

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION *for the year ended December 31, 1974*

	1974	1973
WORKING CAPITAL INCREASED BY		
Operations		
Net earnings for the year	$3,819,064	$1,299,980
Depreciation	612,425	427,069
Deferred income taxes less change in current position	65,473	74,200
Minority interest in net earnings of subsidiary companies	58,844	13,485
	4,555,806	1,814,734
Additional long-term debt	549,437	540,000
Repayment of advance to affiliated company	—	350,000
Issue of common shares less expenses	—	1,209,627
Surrender of life insurance policy	21,074	—
	5,126,317	3,914,361
WORKING CAPITAL DECREASED BY		
Acquisition of subsidiary companies	457,100	244,900
Additions to fixed assets, net	2,395,408	1,021,371
Dividends	758,200	156,100
Dividends to minority shareholders	13,485	13,485
Reduction of long-term debt	497,818	694,695
Increase in cash surrender value of life insurance	858	2,800
	4,122,869	2,133,351
INCREASE IN WORKING CAPITAL	1,003,448	1,781,010
WORKING CAPITAL DEFICIENCY OF SUBSIDIARY COMPANIES at effective date of acquisition	(167,287)	(20,811)
	836,161	1,760,199
WORKING CAPITAL, beginning of year	4,504,193	2,743,994
WORKING CAPITAL, end of year	$5,340,354	$4,504,193

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *December 31, 1974*

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and all its subsidiaries.

During the year the company purchased 75% of the issued voting capital stock of Triscon Steel Limited, 80% of the issued voting capital stock of PennKote Limited and made certain other minor acquisitions. Triscon supplies and places reinforcing steel and PennKote manufactures waterproofing materials. Details of such acquisitions are as follows:

	Triscon	PennKote	Other
Dates of acquisition	July 31	January 1	Various
Total assets acquired, excluding goodwill, at fair value	$3,730,754	$151,049	$108,130
Less: Total liabilities assumed at fair value	3,211,170	365,887	127,060
Minority interest in net assets acquired	129,896	—	—
	389,688	(214,838)	(18,930)
Goodwill arising from acquisitions	60,312	221,838	19,030
Purchase consideration—cash	$ 450,000	$ 7,000	$ 100

The acquisitions have been accounted for by the purchase method and the results of their operations have been included in the consolidated statement of earnings since dates of acquisition. Goodwill will be amortized over ten years by the straight-line method.

The shares of PennKote Limited were acquired from the company's parent, Rebars Limited, and the liabilities assumed include an amount of $238,437 which will only be payable out of future profits of the acquired subsidiary (Note 4).

(b) Inventories

Inventories are valued at the lower of cost and net realizable value and include the following:

	1974	1973
Finished stock	$ 2,782,588	$ 1,465,485
Raw materials	15,025,043	5,627,937
Work-in-process	170,600	287,251
Other	594,335	94,058
	$18,572,566	$ 7,474,731

(c) Depreciation

Depreciation is calculated at rates which will amortize the original cost of the fixed assets to their estimated residual value over the useful life of the assets on the declining balance basis.

(d) Recording Of Income

Construction contracts are generally priced on a per unit basis. The company recognizes revenue and expenses over the term of each construction contract on the basis of units of work completed.

At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.

Profits from other sales are recorded at the time the products are shipped.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *December 31, 1974 Continued*

2. PROPERTY, PLANT AND EQUIPMENT

	1974	1973
Buildings	$2,748,243	$2,249,058
Construction and manufacturing equipment	4,345,006	3,186,000
Office equipment	323,203	224,281
Automotive equipment	1,296,187	811,029
	8,712,639	6,470,368
Less: Accumulated depreciation	3,836,818	3,165,306
	4,875,821	3,305,062
Land	1,270,355	542,988
	$6,146,176	$3,848,050

Fixed assets are carried at cost, less a forgivable demand loan of $188,883 from the Ontario Development Corporation granted to acquire certain assets. The loan is interest free and forgivable at the rate of 10% per year in the years 1971 to 1975 inclusive with the balance forgivable in the year 1976 provided the company meets certain prescribed conditions. The remaining contingent liability as at December 31, 1974 was $113,331.

3. BANK ADVANCES

To secure the bank loans the company and its subsidiaries have assigned their receivables and inventories and in addition the companies have given a debenture secured by a floating charge on all their other assets and property.

4. LONG-TERM DEBT

	1974	1973
MORTGAGES PAYABLE at interest rates varying from 6% to 8½%	$ 859,294	$ 600,626
NOTES PAYABLE		
Note payable, non interest bearing	34,158	26,316
Notes payable, with interest at prime bank rates plus ¼%	190,000	315,000
Loan payable to minority shareholder of a subsidiary with interest at 6%	100,000	100,000
Loan payable to parent company with interest at prime bank rates plus 1%, repayable only out of the future net earnings of a subsidiary company (Note 1)	238,437	—
	562,595	441,316
TERM BANK LOANS at prime bank rates plus 2%	1,600,000	1,785,000
	3,021,889	2,826,942
LESS: Amounts due within one year included in current liabilities	529,114	503,284
	$2,492,775	$2,323,658

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *December 31, 1974 Continued*

The long-term debt is repayable approximately as follows:

	Mortgages	Notes	Term Bank Loans	Total
1975	$ 51,956	$ 113,158	$ 364,000	$ 529,114
1976	379,154	102,000	364,000	845,154
1977	157,535	9,000	364,000	530,535
1978	254,308	—	308,000	562,308
1979	12,000	—	200,000	212,000
Subsequent to 1979	4,341	338,437	—	342,778
	$ 859,294	$ 562,595	$1,600,000	$3,021,889

5. OUTSTANDING OPTION

Under the terms of an agreement with the Tree Island Steel Co. Ltd., effective only between May 1, 1975 and November 1, 1975, the company has the right to acquire or may be required to acquire under certain circumstances the remaining 25% interest in Triscon Steel Limited for a consideration of $200,000.

6. EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares outstanding during each year (1,115,000 in 1974 and 1,060,000 in 1973).

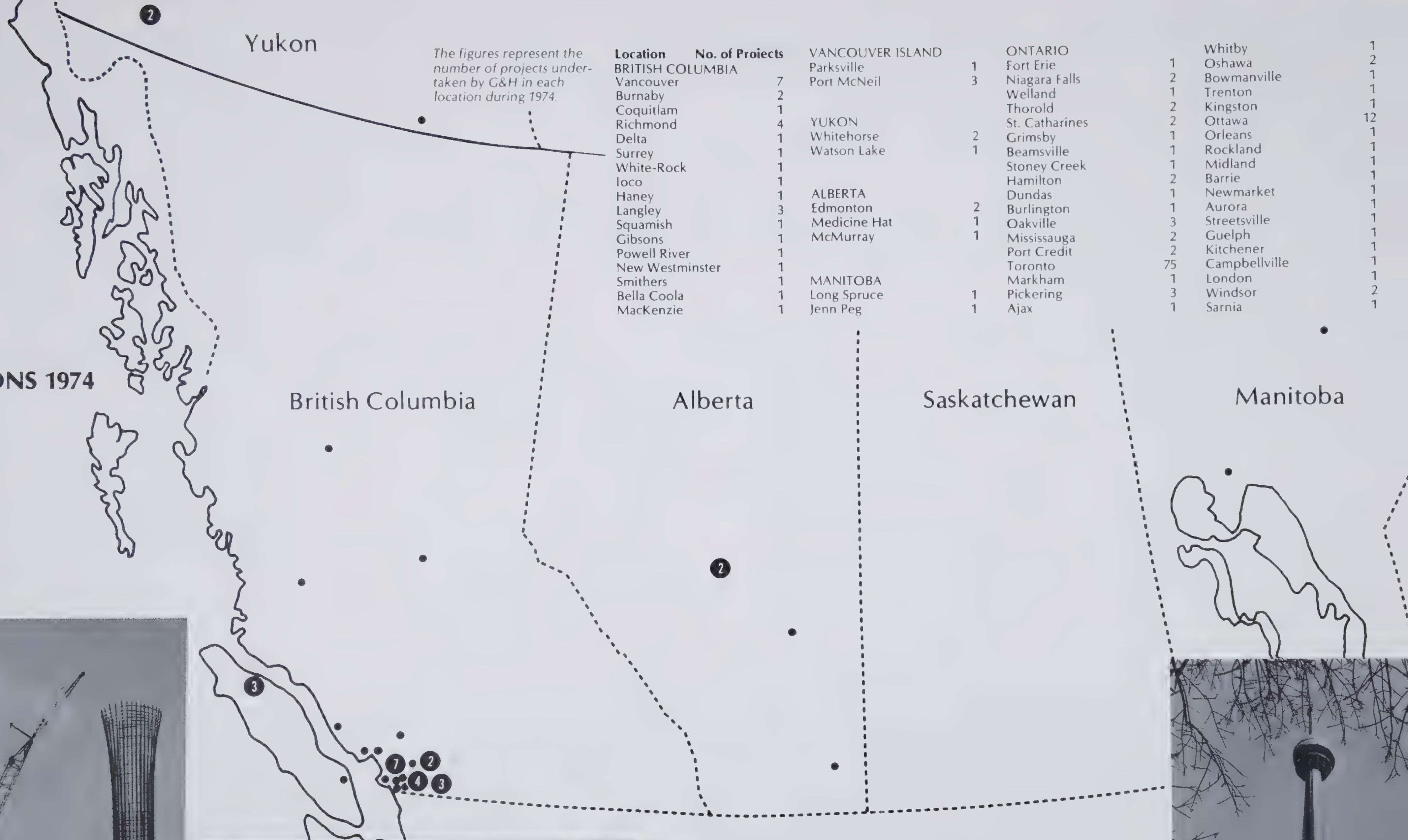
7. STATUTORY INFORMATION

G & H Steel Industries Limited is incorporated under the laws of Canada.

Directors' and officers' remunerations—

	1974		1973	
	Number	Remuneration as such	Number	Remuneration as such
Directors	5	$ 3,000	5	$ —
Officers	6	305,500	4	183,200
Number of officers who are directors	4	—	3	—

OPERATIONS 1974



The figures represent the number of projects undertaken by G&H in each location during 1974.

Location	No. of Projects
BRITISH COLUMBIA	
Vancouver	7
Burnaby	2
Coquitlam	1
Richmond	4
Delta	1
Surrey	1
White-Rock	1
Ioco	1
Haney	1
Langley	3
Squamish	1
Gibsons	1
Powell River	1
New Westminster	1
Smithers	1
Bella Coola	1
MacKenzie	1
VANCOUVER ISLAND	
Parksville	1
Port McNeil	3
YUKON	
Whitehorse	2
Watson Lake	1
ALBERTA	
Edmonton	2
Medicine Hat	1
McMurray	1
MANITOBA	
Long Spruce	1
Jenn Peg	1
ONTARIO	
Fort Erie	1
Niagara Falls	2
Welland	1
Thorold	2
St. Catharines	2
Grimsby	1
Beamsville	1
Stoney Creek	1
Hamilton	2
Dundas	1
Burlington	1
Oakville	3
Mississauga	2
Port Credit	2
Toronto	75
Markham	1
Pickering	3
Ajax	1
Whitby	1
Oshawa	2
Bowmanville	1
Trenton	1
Kingston	1
Ottawa	12
Orleans	1
Rockland	1
Midland	1
Barrie	1
Newmarket	1
Aurora	1
Streetsville	1
Guelph	1
Kitchener	1
Campbellville	1
London	1
Windsor	2
Sarnia	1


Hudson St. bridge, Vancouver, B.C.

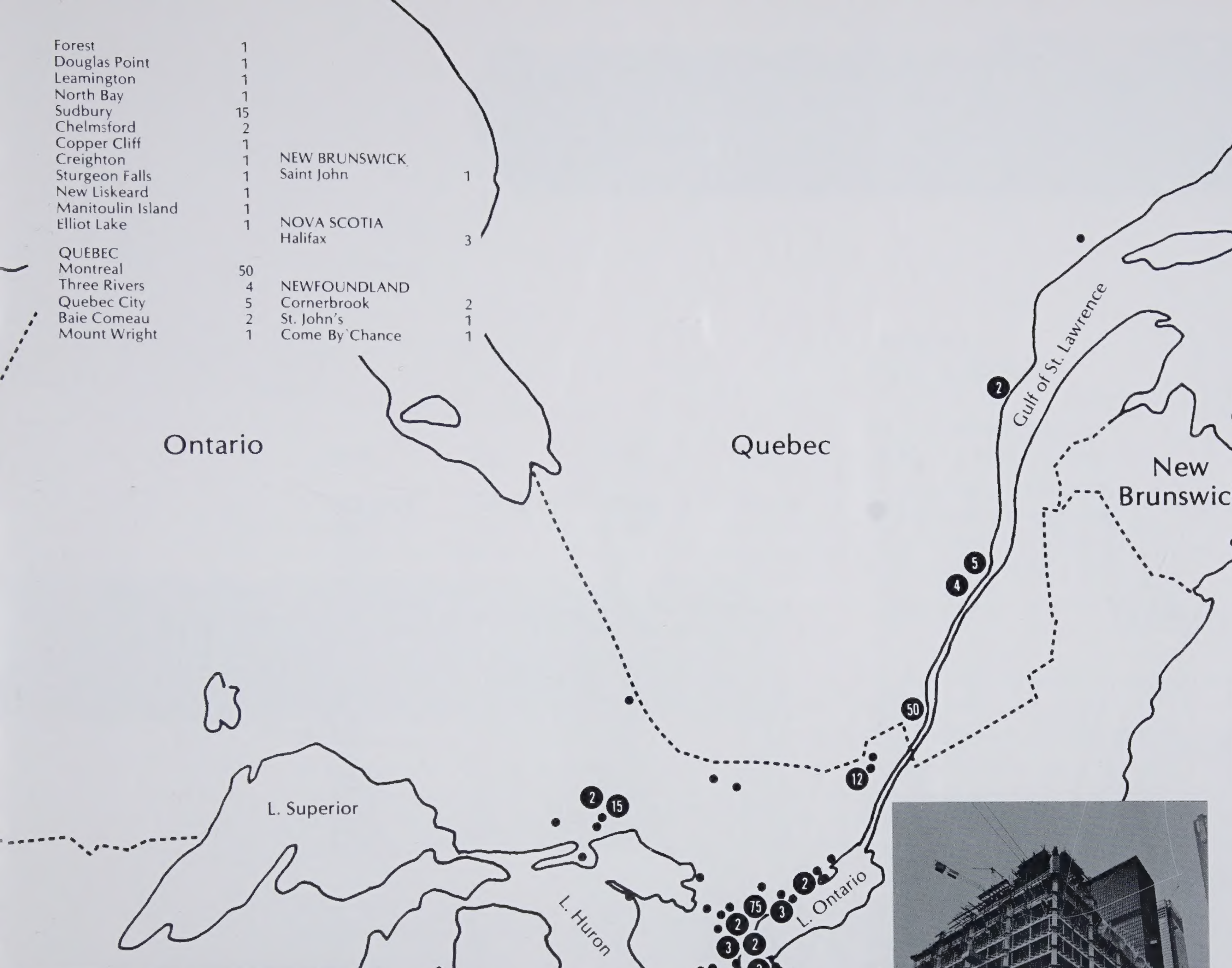

Long Spruce hydro generating project, Manitoba.

Dixie Rd. overpass at Highway 401, Mississauga, Ontario.

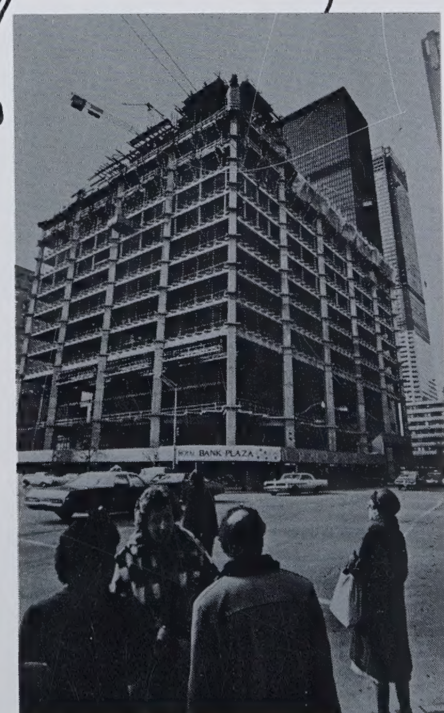


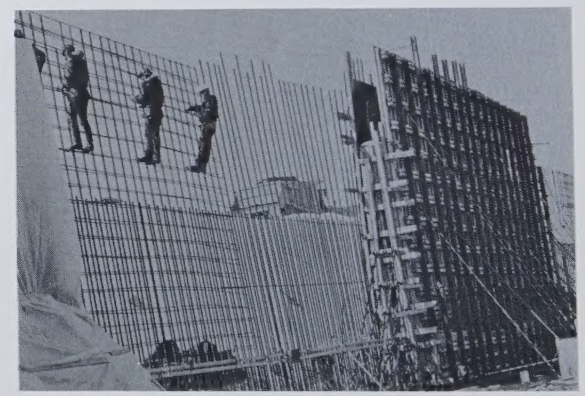
CN Tower, Toronto, Ontario.

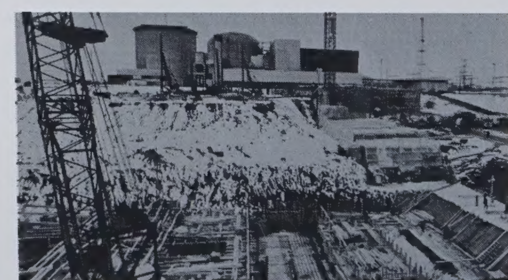
Forest	1
Douglas Point	1
Leamington	1
North Bay	1
Sudbury	15
Chelmsford	2
Copper Cliff	1
Creighton	1
Sturgeon Falls	1
New Liskeard	1
Manitoulin Island	1
Elliot Lake	1
QUEBEC	
Montreal	50
Three Rivers	4
Quebec City	5
Baie Comeau	2
Mount Wright	1
NEW BRUNSWICK	
Saint John	1
NOVA SCOTIA	
Halifax	3
NEWFOUNDLAND	
Cornerbrook	2
St. John's	1
Come By Chance	1




Rank Corporation project, North York, Ontario.


Royal Bank Plaza, Toronto, Ontario.


Mirabel Airport, Ste. Scholastique, Quebec.

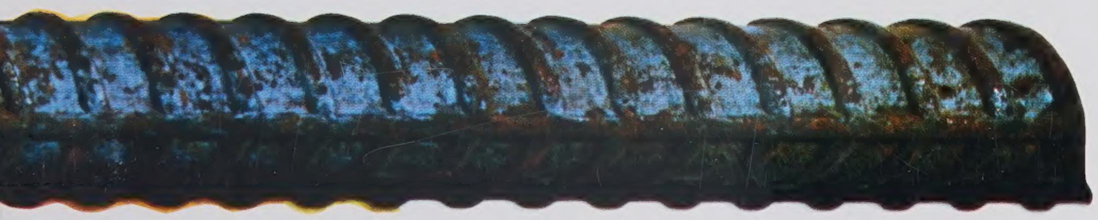

Pickering Generating Station, Pickering Twp., Ontario.

FIVE YEAR REVIEW

(in thousands of dollars except for per share data)

	1974	1973	1972	1971	1970
OPERATING RESULTS					
Contract revenue and sales*	$ 75,640	$ 44,331	$ 29,872	$ 23,107	$ 17,568
Income taxes*	3,804	1,116	831	804	315
Net earnings*	3,819	1,300	891	775	312
Depreciation*	612	427	376	232	218
Funds provided from operations	4,556	1,815	1,080	946	385
FINANCIAL POSITION					
Working capital	$ 5,340	$ 4,504	$ 2,744	$ 1,015	$ 1,018
Capital expenditures	2,395	1,021	555	293	212
Acquisition of subsidiaries	457	245	1,166	—	—
Fixed assets, net	6,146	3,848	2,817	1,527	1,421
Long-term debt	2,493	2,324	2,121	757	1,010
Shareholders' equity	8,740	5,679	3,325	2,153	1,772
SHAREHOLDERS' INFORMATION					
Per share	$	$	$	$	$
Net earnings*	3.43	1.23	.94	.82	.33
Cash flow	4.09	1.71	1.14	1.00	.41
Average shares outstanding	1,115,000	1,060,000	950,000	950,000	950,000

**See Note 1, Accounting Policies, in Notes to Consolidated Financial Statements.*



G & H STEEL INDUSTRIES LIMITED
315 NANTUCKET BLVD., SCARBOROUGH, ONTARIO M1P 2P2

OFFICERS

David Lyall Hadden
President

Paul Jay Raffensperger
Vice-President—Operations

Walter William Guminny
Secretary-Treasurer and
Vice-President—Finance

Harold McGregor Curry
Vice-President
—Engineering

Wayne C. Hutt
Vice-President—Sales

Bernard William Matte
Vice-President—Corporate
Development

DIRECTORS

William Maxwell Bateman
President,
Lake Ontario Cement Ltd.

Walter William Guminny

David Lyall Hadden

Bernard William Matte

Paul Jay Raffensperger

BANKERS
Bank of Montreal,
1350 Ellesmere Road,
Scarborough, Ontario.

TRANSFER AGENT
National Trust Company,
21 King Street East,
Toronto, Ontario.

AUDITORS
Campbell, Sharp, Nash & Field,
401 Bay Street, Toronto, Ontario.

HEAD OFFICE
315 Nantucket Blvd.,
Scarborough, Ontario. M1P 2P2

SUBSIDIARY CORPORATIONS
Lundy Steel Limited
G&H Steel Service Quebec, Ltd.
G&H Fence Limited
Triscon Steel Limited
Adanac Construction Inc.
Brandywine Steel Corporation
PennKote Limited
B.B.R. Canada Limited
Lek-Trodes Limited
Wapiti Industries Inc.